


# EXHIBIT H

## Moody's views Serta Simmons' transaction as distressed exchange, downgrades existing first and second lien term loans; outlook negative.

 [moodys.com/research/Moodys-views-Serta-Simmons-transaction-as-distressed-exchange-downgrades-existing--PR\\_426243](https://www.moodys.com/research/Moodys-views-Serta-Simmons-transaction-as-distressed-exchange-downgrades-existing--PR_426243)

June 11, 2020



### Rating Action:

11 Jun 2020



New York, June 11, 2020 -- Moody's Investors Service, ("Moody's") today downgraded Serta Simmons Bedding, LLC's ("Serta Simmons") first lien term loan to Ca from Caa3, and its second lien term loan to C from Ca. At the same time, Moody's affirmed Serta Simmons' Corporate Family Rating ("CFR") at Caa3, and its Probability of Default Rating ("PDR") at Caa3-PD. The rating outlook is negative.

These actions follow Serta Simmons' entry into an agreement in principle with a majority of lenders of its first lien and second lien term loans to recapitalize the company by allowing for certain new super priority tranches in exchange for existing debt at an implied valuation level that is subpar relative to the initial investment. In total, the proposed transaction will reduce the company's funded net debt burden by approximately \$400 million.

The proposed transaction involves \$200 million of new capital from lenders in the form of an un-rated super-priority first lien "first-out" tranche (FLFO) ranking ahead of the existing first lien term loan. Additionally, the company will exchange a portion of its existing first lien term loan and existing second lien term loan into a new super-priority tranche of up to \$875 million that will be a first lien "second-out" tranche (FLSO) in payment priority following the FLFO tranche.

The proposed transaction also gives the company the ability to create an additional basket for super-priority "third out" debt that would rank ahead of existing first and second lien term loans and that can be used for future exchanges of existing first lien and second lien term loans. Pro forma for the proposed transaction, cash on hand will be roughly \$300 million at close and there will be no material debt maturities until 2023.

Moody's views the proposed transaction as a distressed exchange given that a majority of existing first-lien term loan lenders will exchange \$100 of existing first lien term loans for \$74 of FLSO term loans, and the majority of existing second lien term loan lenders will exchange \$100 of existing second lien term loans for \$39 of new FLSO term loans. Additionally, Moody's believes that term loan lenders who do not consent to the transaction will potentially be left with little or no remaining collateral coverage in Serta Simmons, as well as in a position that is subordinated to new, higher priority debt. As such, upon close of the transaction, Moody's will append the PDR with an "/LD" designation to indicate a limited default, which will be removed after three business days.

The affirmation of the Caa3 CFR considers that, while the proposed transaction would provide additional liquidity, Moody's believes Serta Simmons' pro forma capital structure is not sustainable, and as a result, there is a continued high risk of additional distressed debt exchanges and/or a more comprehensive debt restructuring. Despite the roughly \$400 million reduction in the company's funded debt burden, the proposed transaction will meaningfully increase the company's cash interest cost, and leverage will remain substantial. Pro forma debt/EBITDA is 10.6x, Given the company's already weak operating results along with the difficult operating environment created by the corona virus pandemic, that metric will increase to approximately 15x over the next 12-18 months.

The downgrade of the existing first lien term loan to Ca from Caa3 reflects weakening recovery prospects from the subordination to higher priority debt including the new FLFO tranche and FLSO tranche that will materially weaken recovery prospects. The downgrade of the second lien term loan to C from Ca reflects even weaker recovery prospects compared to the new FLFO tranche, FLSO tranche and existing first lien term loan.

Serta Simmons Bedding, LLC ratings affirmed:

Corporate Family Rating, at Caa3

Probability of Default Rating, at Caa3-PD

Serta Simmons Bedding, LLC ratings downgraded:

Senior Secured First Lien Term Loan due 2023 to Ca (LGD5) from Caa3 (LGD3);

Senior Secured Second Lien Term Loan due 2024 to C (LGD6) from Ca (LGD5)

The outlook is negative

#### RATINGS RATIONALE

Serta Simmons' Caa3 CFR reflects Moody's concern regarding the sustainability of the company's debt capital structure given the company's substantial pro forma and projected leverage, and aggressive financial policy under private equity ownership, evident by the \$670

million debt financed dividend paid in 2016 and its continued high financial leverage. The ratings are also constrained by the volatility in profitability and cash flows experienced during economic downturns. Positive consideration is given to Serta Simmons' solid scale with revenue of about \$2.2 billion, leading market share, well-known brand names and product development capabilities.

Serta Simmons is moderately exposed to environmental, social and governance (ESG) risks. The company uses, transports, and stores chemicals in its foam manufacturing process. A failure to adhere to environmental regulations and safe practices could result in financial penalties and remediation costs.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The consumer products sector has been one of the sectors affected by the shock given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in Serta Simmons' credit profile, including its exposure to multiple affected countries have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and the company remains vulnerable to the outbreak continuing to spread. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action in part reflects the impact on Serta Simmons of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

The negative outlook considers Moody's view that Serta Simmons' pro forma capital structure is not sustainable, and as a result, there is a continued high risk of additional distressed debt exchanges and/or a more comprehensive debt restructuring. It also reflects Moody's view that Serta Simmons' ability to materially improve revenues, earnings and free cash flow is weakened by efforts to curtail the coronavirus and an anticipated pullback in consumer spending.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings could be downgrade further if Serta Simmons' liquidity or recovery values weaken, or should Moody's feel the company's capital structure is becoming increasingly unsustainable. This would include an increased probability that Serta Simmons will pursue a debt restructuring.

An upgrade would require that Serta Simmons materially improve its operating performance and reduce its financial leverage. Moody's would also need to gain greater comfort that the company's capital structure is sustainable before considering an upgrade.

The principal methodology used in these ratings was Consumer Durables Industry published in April 2017 and available at

[https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1060509](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1060509).

Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Serta Simmons Bedding, LLC is the parent company of Serta International Holdco, LLC ("Serta") and Simmons Bedding Company, LLC ("Simmons"). Both Serta and Simmons manufacture, distribute and sell mattresses, foundations, and other related bedding products. The company's brand names include, Serta, Beautyrest, Tuft & Needle and Simmons. The company is majority owned Advent International and generates about \$2.2 billion in annual revenue.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form.

Moody's Rating Symbols and Definitions can be found at:

[https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity.

Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction:

Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moody's.com](http://www.moody's.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at

[https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on [www.moody's.com](http://www.moody's.com).

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for additional regulatory disclosures for each credit rating.

Chedly Louis  
VP - Senior Credit Officer  
Corporate Finance Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Maria Iarriccio  
Vice President - Senior Analyst  
Corporate Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

John E. Puchalla, CFA  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

No Related Data.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR**

**ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b)

any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security

that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.